



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0421	Title:	Extend termination date of coal severance tax coal washing credit
Primary Sponsor:	Berry, Tom	Status:	As Introduced

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|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	(\$669,224)	(\$669,224)
State Special Revenue	\$0	\$0	(\$998,520)	(\$998,520)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>(\$669,224)</u>	<u>(\$669,224)</u>

Description of fiscal impact: HB 421 reduces general fund revenue by \$669,224 and state special fund revenue by slightly less than \$1 million, starting in FY 2018. The bill, if passed, is estimated to reduce local jurisdiction revenue by about \$400,000, also starting in FY 2018.

FISCAL ANALYSIS

Assumptions:

- HB 421 proposes to extend the termination date of the coal washing credit by eight years. Currently this provision terminates on July 1, 2017. This bill changes the date to July 1, 2025. Coal washing is defined as any treatment to remove impurities from underground mined coal. Coal washing may include, but is not limited to, operations such as flotation, air, water, or heavy media separation, drying, and related handling (see 15-35-102, MCA). Under current law, the contract sales price does not include the costs specific to the act of coal washing. The net effect of the exclusion is to reduce the contract sales price upon which certain taxes are calculated.

2. There are three taxes which this provision affects – coal severance, coal gross proceeds and the resource indemnity and ground water assessment tax (RIGWAT). Historical data indicates that when this provision is in place it reduces coal severance taxes by an average of \$1.2 million per year. Coal gross proceeds taxes are reduced by approximately \$750,000 per year. The RIGWAT revenues are reduced by an average of \$120,000 per year.
3. Coal severance taxes are distributed based upon state statute and the distributions as applied to the expected \$1.2 million per year reduction are shown in the following table:

Severance tax distribution		
Coal trust fund	50%	600,000
Long range building	12%	144,000
Shared account	5.46%	65,520
Park acquisition Trust	1.27%	15,240
Renewable resource debt service	0.95%	11,400
Cultural & aesthetic projects	0.63%	7,560
Coal Board	2.90%	34,800
coal/uranium (250k)	n/a	
General Fund - balance		321,480
Sum of the non-General Fund		878,520

4. Coal gross proceeds taxes are distributed based upon state statute and the distribution is based total number of mills levied in fiscal year 1990. Using the mean distribution proportions for the most recent three fiscal years, the distribution between state and local jurisdictions is shown in the following table. The state share is deposited in the general fund. The local share is returned to the counties in which the production occurred.

Coal Gross Proceeds		
Local	54%	402,256
State	46%	347,744
		<u>750,000</u>

5. Revenue from the RIGWAT tax is deposited in a state trust fund managed by the Board of Investments and distributed to several special funds and accounts based upon state statute. A fixed amount (currently \$366,000 each fiscal year) is used for ground water assessment and \$150,000 per biennium is deposited in the water storage state special revenue account. An amount as certified by the Department of Environmental Quality is deposited to the CERCLA match debt service fund. The remaining balance is distributed to the hazardous waste/CERCLA special revenue account (25%), the environmental quality protection account (25%) and the natural resources projects fund (50%).
6. The two accounts which have fixed dollar amount distributions and the debt service are assumed to not be affected by the proposed provisions of the bill. The three accounts that receive the remainder are assumed to be affected each fiscal year by the amounts shown in the following table:

Resource Indemnity and Ground Water Assessment Tax		
Hazardous waste/CERCLA	25%	30,000
Environmental quality protection	25%	30,000
Natural resources projects	50%	60,000
		<u>120,000</u>

7. The proposed change in the bill will not affect state or local revenues until FY 2018 and FY 2019.
8. The Department of Revenue does not anticipate additional costs due to this bill.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	(\$669,224)	(\$669,224)
State Special Revenue (02)	<u>\$0</u>	<u>\$0</u>	<u>(\$998,520)</u>	<u>(\$998,520)</u>
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>(\$1,667,744)</u>	<u>(\$1,667,744)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	(\$669,224)	(\$669,224)
State Special Revenue (02)	\$0	\$0	(\$998,520)	(\$998,520)

Effect on County or Other Local Revenues or Expenditures:

1. The estimated reduction in local revenue is about \$400,000 per fiscal year starting in FY 2018 as compared to current law (see assumption 4).

Technical Notes:

1. As the bill is written the definitions for coal washing and contract sales price will be extended out until July 1, 2025. Currently, the “coal washing” definition is eliminated in the 15-35-102, MCA, definitions part (Effective July 2, 2017). For tax compliance purposes, and also clarity for taxpayers, the coal washing definition should remain in 15-35-102, MCA, through the new termination date for coal washing expenses. Also the definition of contract sales price in the last sentence on coal washing should be left in for the same reason.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date